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The role of insurance in the Middle East and North Africa

Contents

This paper was written by Roy Suter and Benno Keller of the Government and Industry Affairs unit of Zurich Insurance Group ('Zurich'). The authors would like to thank Frank Bodmer, Francis Bouchard, Daniel Hofmann, Christian Hott, Brandon Mathews, Saad Mered, Jürgen Stanowsky and Nasser Saidi for their helpful comments and input. The paper reflects the personal view of the authors and not necessarily that of Zurich Insurance Group.

I. Introduction

Insurance has the potential to provide vital support to emerging economies. But its advantages often tend to be overlooked. This paper aims to shed light on the positive contributions insurance offers, both economically and to society, with a special focus on countries in the Middle East and North Africa (MENA).[1] Promoting awareness of these benefits may help to create the conditions necessary for insurance to support economic development in the region.

MENA countries have made considerable economic progress over the last decade. Yet a number of formidable challenges still remain, including transforming local economies and inclusive job creation, especially for a burgeoning young population. Insurance has the potential to address these challenges and help countries in the region to achieve their growth targets. It allows individuals and their families to control their fate by protecting hard-earned assets, thus creating economic stability for all classes of society. By providing risk transfer and facilitating capital formation, insurers also promote economic development. And by insuring trade and foreign direct investments, insurance contributes to sustainable growth across all market sectors.

Despite these potential benefits, the insurance sector is underdeveloped in the MENA region and its growth-enhancing potential has not been sufficiently realized. This can partly be explained by cultural and religious factors that influence insurance-buying behavior. Beyond that, trust in insurance is lacking, and there is only a rather limited awareness of the benefits it offers. Furthermore, for large segments of the population, insurance is often unaffordable. In addition, significant regulatory and public policy-related hurdles have hindered the development of a strong and competitive insurance segment.

With decisive leadership, policymakers, regulators and industry players can help to overcome these barriers. Concerted efforts must be underpinned by a constructive, ongoing dialogue between all stakeholders in the public and private sectors.

II. Key challenges in the MENA region

Since the start of the millennium, the MENA region has seen positive economic growth. Average annual real growth was around 5 percent.[2] This is lower than the average annual growth rate of developing Asia, but higher than Latin America's growth rate. Against the background of high population growth, however, this performance has not translated into comparable advances in gross domestic product (GDP) growth per capita. Even though population growth has slowed recently, the region still has one of the highest population growth rates in the world.[3]

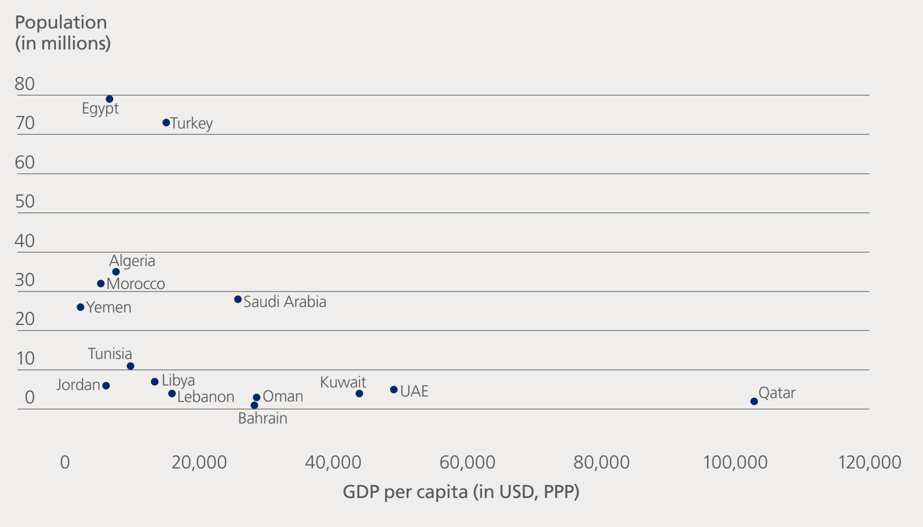
These aggregate figures mask important variations among the individual countries in the region. The main factor here is the availability of oil, gas, and related energy resources. In this regard, MENA countries can be classified as either resource-rich, or resource-poor. The first category comprises Cooperation Council for the Arab States of the Gulf (GCC) countries, as well as Algeria, Iraq, and Libya. The second is made up of Egypt, Jordan, Lebanon, Morocco, Tunisia, Syria, Yemen and Turkey.

Among MENA countries, Turkey, Egypt, Algeria and Morocco have the largest populations, accounting for 220 million people. Apart from Algeria, these countries are resource-poor. It is no surprise that they are among the poorer in the region (see Graph 1). By contrast, resource-rich countries including the GCC are among the wealthiest in the world.

1. The term MENA has no standardized definition. For the purposes of this paper, we define MENA as the majority of both the Middle Eastern and Maghreb countries, and Turkey.
2. The IMF world economic outlook of April 2013 contains the most recent information on regional economic growth. Growth in the MENA region has been volatile since the advent of the Arab Spring. In 2011 the region's annual real growth rate dropped to 3.5 percent, as several MENA countries affected by political turmoil and social unrest posted significantly subdued growth. Though growth rebounded in 2012, regional growth projections for 2013 and 2014 are again somewhat below average. The IMF regional economic outlook update of April 20, 2012 contains more detailed information on the economic development of the region.
3. See Anthony O'Sullivan, Marie-Estelle Rey and Jorge Galvez Mendez, 2011, Opportunities and Challenges in the MENA region, a paper prepared as part of the MENA-OECD Investment Programme.

II. Key challenges in the MENA region
continued

Graph 1:
Population versus GDP per capita



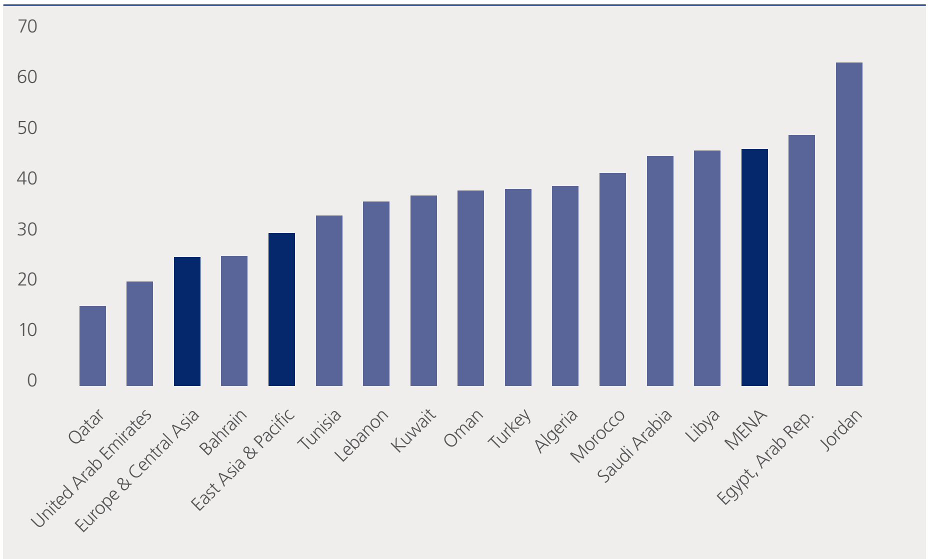
GDP per capita is in US dollars, adjusted for purchasing power parity (PPP). Source: data from the IMF Economic Outlook Database for 2012.

Big increases in population have led to what many observers refer to as a 'youth bulge' (see Graph 2). This segment of the population in particular has suffered from the region's high unemployment. Youth unemployment averages about 25 percent in the MENA region, which needs to create on the order of 55-70 million jobs in the years to 2020 just to keep pace with population growth, and to bring overall unemployment down to a more palatable norm.[4] There is clearly a real need for developing a balanced, multi-industry economy that can absorb a large army of unemployed citizens.

Resource-rich countries' heavy reliance on energy exports adds a further rationale for the urgent need for economic diversification. Falling energy prices or declining reserves are expected to act as a brake on growth, reducing prospects for long-term development. Diversifying the economy is thus one of the most important challenges resource-rich countries will face in the future.

[4] See Daniel Hofmann, 2012, The Demographic Challenge for Economic Policy Makers: Labor Market Developments in a Framework of Sustainable Economic Growth and Financial Sector Development, in Hans Groth and Alfonso Sousa-Poza (eds.), Population Dynamics in Muslim Countries, Berlin, Heidelberg.

Graph 2:
Age-dependency ratio, young (percent of working-age population)



The age-dependency ratio, young, is the ratio of people younger than 15 relative to the working-age population aged 15 to 64.
Source: data from the World Bank, World Development Indicators for 2010.

Progress on these fronts has been uneven. With varying degrees of success, resource-rich Gulf countries have sought to build new manufacturing and/or services bases, particularly in the financial sector. Emerging financial centers in the U.A.E. and Qatar are testimony to such efforts. The tourism industry also has expanded in various parts of the region. Resource-poor countries, however, have failed to further grow their financial sectors, which remain small and underdeveloped. Manufacturing continues to play a marginal role in most MENA countries. Insufficient integration of these economies into the global economy remains a key challenge.[5]

Lack of an adequate institutional framework poses a further major obstacle to efforts to transform and energize the region's economies, exacerbating the risks – and costs – of doing business. The quality of legal and administrative systems in resource-poor countries in particular is a major source of concern.[6]

Additionally, heightened and intensified political risk since the Arab Spring has compounded the already comparatively high risks of doing business in the region. One result has been a decline in Foreign Direct Investment (FDI) inflows into the MENA region. These nearly halved between 2008 and 2011. FDI is also heavily concentrated in the resource-rich countries. It is likely to decline further in those MENA countries suffering from political instability.[7]

5. See IMF, 2011, Regional economic outlook. Middle East and Central Asia, Washington, D.C.
6. See World Bank, 2013, Doing Business. Regional Profile: Middle East and North Africa, for a comprehensive overview of the regulations affecting the region's business environment.
7. See UNCTAD, 2012, World Investment Report, and Anthony O'Sullivan, 2010, FDI trends in the MENA region and persisting policy challenges, delivered as part of the MENA-OCED Investment Programme.

III. The critical role of insurance in MENA

Insurance plays an important economic and social role through its ability to transfer risk through risk pooling and its overall role in risk management (see Box 1).[8] It frees individuals from dependence on families or communities in case of an adverse event. More importantly, poor families or communities may lack means for 'self-insurance.' Insurance thus provides an efficient mechanism to protect people from falling into poverty as a consequence of an adverse event. Besides protecting individuals, by providing essential coverage to businesses, insurance promotes trade and economic activity. Insurers also contribute to capital formation by collecting premiums from a large number of policyholders and building capital to back risk. Insurance can therefore play an important role in helping the MENA region to address its central challenges.

Box 1: How insurance contributes to the economy and society
Insurance performs three core economic functions:

- **Insurance enables risk transfer**: insurance provides an efficient mechanism of risk transfer by pooling idiosyncratic risks. In technical terms, such risk pooling, based on the law of large numbers, provides value in that the premium paid by individual policyholders is smaller than the cost of an expected maximum loss occurrence.
- **Insurance provides risk management**: By charging a premium that reflects the underlying risks, insurance provides an important signal to policyholders and the economy at large, thereby offering incentives for risk mitigation. Insurers also give risk management advice and services to individuals and companies.
- **Insurance contributes to efficient capital accumulation**: Insurers typically invest collected premiums as reserves for future claims payments. By accumulating large pools of capital invested in real and financial assets, insurers foster capital formation. In contrast to other financial institutions, insurance assets are typically matched in size and maturity with positions on the liability side, and do not involve maturity transformation.

By performing these three core functions, insurers provide important benefits for society and the economy:

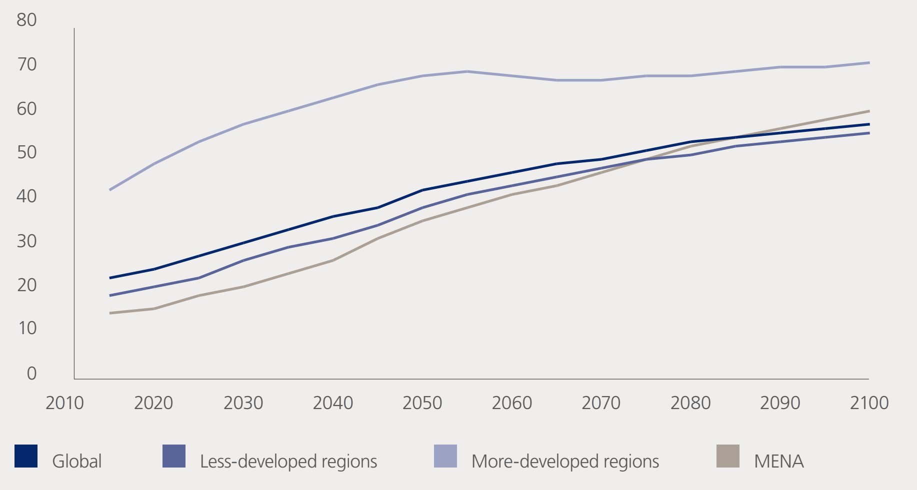
- **Insurance enhances wellbeing**: Insurance directly enhances individual wellbeing by creating 'peace of mind.'
- **Insurance promotes economic activity**: Insurance reduces the need to hold precautionary capital and thus frees resources for more productive uses. It allows firms to engage in higher-risk and higher-return activities that otherwise would not be undertaken (i.e. by obtaining liability insurance).
- **Insurance facilitates trade**: Insurance has a long history of supporting trade. Today, insurers help firms to manage complex risks associated with global supply chains.

8. See Lael Brainard, 2008, What is the role of insurance in economic development?, Zurich Insurance Group (formerly Zurich Financial Services), and Julian Arkell, Christian Hott and Benno Keller, 2012, The Role of Insurance in Latin America, Zurich Insurance Group.

Protecting and supporting a growing middle class
While income levels in the MENA region have risen as a whole over the past decade, there are still substantial differences between individual countries in this regard. For example, the gap between GDP per capita levels in Qatar and Yemen is nearly USD 100,000 (see Graph 1). A large proportion of the population – in particular in the resource-poor countries of the region – is still at a low income level, with only limited possibilities to build financial reserves to protect against illness, accidents, or property loss or damage. As a result of an adverse event, consumption can be drastically reduced, often with major, long-term implications for future health and income. Individuals, families or entire villages can fall into poverty, affecting overall economic development. For those who manage to escape poverty, insurance provides security, helping them to maintain their social status. This is a crucial contribution toward sustainable economic growth.

Populations in emerging economies are still much younger than those of advanced economies. This is particularly true in the MENA region. However, as in other less-developed regions, its population is also starting to age (see Graph 3).

Graph 3:
Age-dependency ratio, old (percent of working-age population)



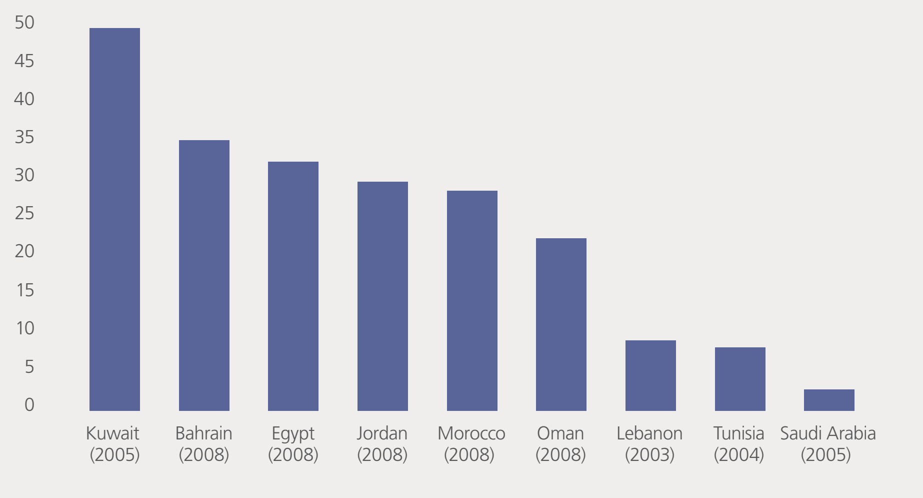
Source: UN statistics.

This means that providing the elderly with an acceptable standard of living will become increasingly important. At the moment, retirement systems in the region are still underdeveloped. Earnings-related pension schemes, mostly for public employees, currently comprise the main type of retirement provision.[9] These are usually defined benefit pension plans, which, at least in theory, are adequately funded. Public pension schemes carry considerable weight in terms of their asset holdings. Besides Morocco and Bahrain, Egypt, Jordan, Kuwait and Oman also have fairly large public pension systems (see Graph 4).

9. See Gustavo Demarco, 2010, Retirement Savings in MENA, Financial Flagship, The World Bank.

III. The critical role of insurance in MENA
continued

Graph 4:
Public pension reserves (percent of GDP)



Source: Demarco, 2010.

Yet, in actual fact, these pension systems hold insufficient reserves to cover future liabilities.[10] They cover only around one-third of the labor force (mostly middle- and high-income workers in the public sector), and they are accumulating large and unsustainable, unfunded pension liabilities; not least because they are promising overly generous implicit returns to their contributors.[11] What's more, the role of private pensions in MENA countries is limited. Demarco (2010) reports asset holdings of 2.7 percent of GDP for Egypt in 2008 and 2.3 percent for Jordan in 2003.[12] Private pensions thus currently fail to compensate for the shortcomings of public pension systems.

The rise of the middle class in many emerging economies will increase the demand for savings products as people strive to maintain their lifestyle into retirement. Without appropriate solutions, the risk is high that large parts of the population will face poverty after they retire. For the moment, based on their low old-age-dependency ratios, comprehensive public pay-as-you-go retirement systems look attractive for MENA countries. However, once the old-age-dependency ratio rises, these pay-as-you-go systems will run into the same difficulties that advanced economies already are facing.

What is needed is an appropriate balance between pay-as-you-go systems, funded pension plans, and individual retirement savings. Life insurance can play an important part in funding retirement solutions. It not only provides long-term savings vehicles, but also addresses risks that might affect the ability to save (i.e. disability) or living longer than expected (i.e. longevity risk) on one's savings.

10. See David Robalino, Edward Whitehouse, Anca Mataoanu, Alberto Musalem, Elizabeth Sherwood, Oleksiy Sluchinsky, 2005, Pensions in the Middle East and North Africa Region: Time for Change, The World Bank.
11. See Middle East Insurance Review, May 2011: Pensions in MENA: Potential for Reform. Downloadable at: http://www.meinsurancereview.com/.
12. See Gustavo Demarco, 2010, Retirement Savings in MENA, Financial Flagship, The World Bank.

Fostering investment and capital formation

Resource-rich countries in the MENA region will need to diversify and modernize their economies to create sufficient employment opportunities, especially if manufacturing and services sectors are going to supply jobs in the future. This suggests the need for enhanced investments in infrastructure, buildings and machinery by both domestic and international investors. Insurance can facilitate such investments in several ways.

For example, both domestic and international investors face numerous risks to their investments. By taking on and pooling some of the risks inherent in business operations, insurance frees up capital, which in turn can be channeled into productive investments (see Box 1). Another example is surety coverage, by which insurers take on certain risks related to large and complex construction projects. Without such coverage, these projects would not be undertaken. These investments are crucial for long-term economic growth, including the investments required to diversify production capacity in manufacturing and services, which would create jobs, also helping to address high youth unemployment.

Insurance can also serve to attract foreign direct investment (FDI), broadening the economic profile of countries in the region. Involving international investors in modernizing the region's economies is critical, helping to attract adequate financial resources (the region's resource-rich countries have sufficient capital), and mobilizing needed knowledge and technology transfers. Yet foreign investors face uncertainties, with political risk seen as the single greatest impediment to inward investment in emerging economies.[13] This is particularly true when it comes to the resource-poor economies of the MENA region. A global and competitive insurance industry can play an important role in supporting FDI. By absorbing and managing some of the risks that investors typically face, global insurers facilitate investments otherwise deemed to be too risky.

Lastly, insurance can make an important contribution to the formation of capital for long-term investment. Insurers typically collect premium payments before any claims may arise. In many cases, for instance, in life insurance, there is a long lag between when premiums are collected and claims are paid out. Insurers reserve for future claims by investing these funds in capital markets, aiming to match the expected maturity of liabilities with assets of equal or at least similar duration. This demands a long-term investment horizon, meaning that insurers are much better prepared than other types of investors to ride out short-term financial market fluctuations.

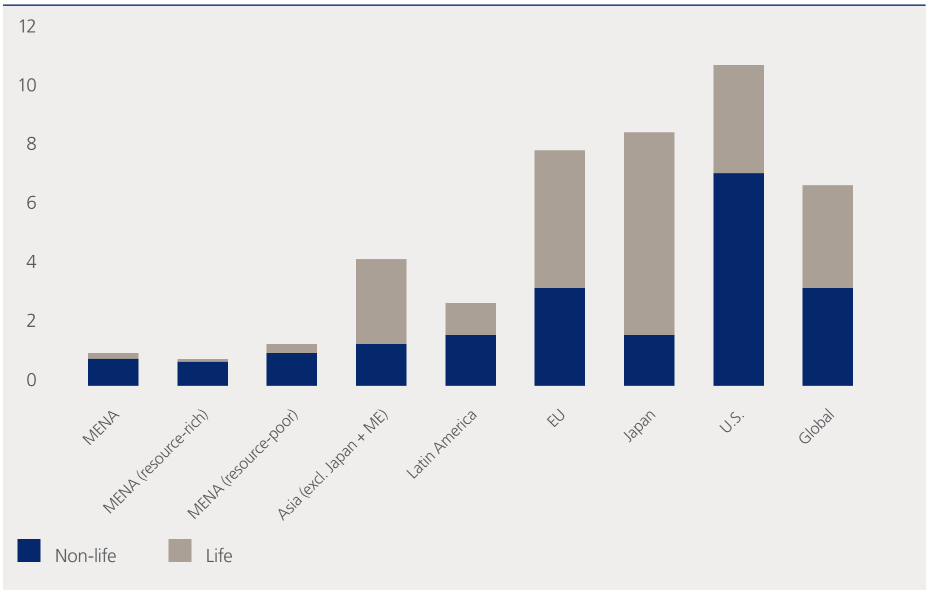
Insurance also promotes trade. For example, exporters face a number of risks including those related to physical product loss, and those arising during transport and shipping. Supply chain risks become greater as emerging economies move up the value-added ladder. These supply chains often extend across national borders or even different continents. In-depth knowledge is needed about the various risk factors and their interdependence in order to effectively manage the risks of complex supply chain disruption. In addition to the trade-enhancing effects of insurance, insurers can help businesses to develop and maintain resilient supply chains.[14]

[13] See MIGA WIPR REPORT, 2010, World Investment and Political Risk.
[14] See The Business Continuity Institute, 2011, Supply Chain Resilience 2011.

III. The critical role of insurance in MENA
continued

The untapped potential of insurance
Despite the ability of insurance to mitigate some key challenges for the sustainable development of emerging economies, its potential remains largely untapped. This is particularly true for MENA countries where insurance penetration – i.e. the ratio between insurance premiums written and GDP – is the lowest in the world (see Graph 5). Insurance penetration varies considerably between MENA countries, ranging from very low ratios in Algeria, Egypt, Yemen and several GCC countries, to ratios above 1.5 percent in Jordan, Lebanon and Morocco.[15] Whereas the non-life sector in the MENA region is roughly comparable to those of other emerging economies, the region's life sector is conspicuously underdeveloped relative to other regions.[16]

Graph 5:
Insurance penetration or premium volume (percent of GDP, 2011)



Source: Axco global statistics.

Interestingly, insurance penetration rates in the MENA region remain low even when taking into account income levels. Research shows that insurance markets typically develop along an S-curve: in the early stages of a country's economic development, demand for insurance service tends to be low. As an economy grows, demand takes off and penetration ratios grow rapidly. They begin to level off again at higher stages of economic development.[17] But the MENA region does not conform to this pattern – insurance penetration ratios are low relative to what might be expected. Morocco is the only country in the region where the insurance penetration ratio is close to expected values.[18]

15. See Rodney Lester, 2011, The Insurance Sector in the Middle East and North Africa, World Bank Policy Research Working Paper.
16. For an annual survey of the insurance markets in the MENA region, see MENA Insurance Barometer, published by the Qatar Financial Centre Authority.
17. See Rudolf Enz, 2000, The S-curve relation between per-capita income and insurance penetration, The Geneva Papers on Risk and Insurance 25, 396-406.
18. See Rodney Lester, 2011, The Insurance Sector in the Middle East and North Africa, World Bank Policy Research Working Paper. A consequence of low insurance penetration rates are the low asset holdings of insurers, in most countries clearly below 10 percent of GDP. Exceptions are Morocco (19 percent in 2009) and Bahrain (12.1 percent in 2009), as Rodney Lester reports. This also explains why insurance companies are apparently not perceived as important investors in the region.

IV. Challenges for insurance in MENA

To reap insurance's full benefits, a vibrant and well-diversified insurance sector is needed that addresses the needs of different customer groups and segments. Policymakers, regulators and market participants must make a concerted effort to address a number of market and regulatory challenges.

Market challenges

Achieving a strong and viable insurance industry requires an efficient financial sector. Special emphasis should be placed on creating an adequate infrastructure to achieve sustainable financial sector development: securities exchanges, payment and settlement systems, and the regulation and supervision necessary to protect policyholders, as well as financial stability, good corporate governance, and transparent markets all play a part. History shows that a modern, well-regulated financial sector can trigger a virtuous circle of financial and economic development. A growing insurance market has a positive impact on further financial sector development and capital formation in the real economy.

The MENA region faces major hurdles including a widespread lack of financial literacy and a low awareness regarding insurance products and their benefits.[19] These constraining factors are more prevalent in resource-poor than resource-rich countries, the latter having higher levels of education and technology at their disposal. It is important to raise awareness that insurance products exist, and to promote understanding of the concept of insurance and the benefits it can provide. Financial education is crucial to overcoming this challenge. The private sector can make a substantial contribution, for example, by working with universities or even secondary schools to increase awareness of the benefits of risk management.

The demand for insurance in the region may also be affected by cultural and religious factors. Empirical research suggests insurance penetration is low in countries with a predominantly Muslim population.[20] Lack of Sharia-compliant insurance products is cited as a main reason for this. The emergence of Takaful insurance that fully adheres to Sharia laws may help to boost the demand for insurance in the region.[21]

Demand may also be limited by low income levels, especially in the resource-poor MENA countries. Insurance is often unaffordable. Suitably tailored products are lacking. It is usually difficult and not very efficient to offer insurance products to society's poorest members. But insurers can reduce the thresholds for efficient insurance and broaden the customer base with tailored products, often referred to as micro-insurance. This entails changing the value proposition of insurance, and how it is achieved; for example, by simplifying policy terms, product distribution, and collecting premiums in novel and highly scalable ways (e.g., via mobile phones). In a best-case scenario, it might be possible to offer access to otherwise unobtainable services, such as medical or even legal advice.[22] Insurance products can be tailored to the needs of low-income households, which otherwise would have limited or no access to insurance. Micro-insurance can also play a vital role in enhancing trust in insurance.

19. See Douglas Pearce, 2011, Financial Inclusion in the Middle East and North Africa, World Bank Policy Research Working Paper.
20. See Erik Feyen, Rodney Lester, and Roberto De Rezende Rocha, 2010, What Drives the Development of the Insurance Sector? World Bank Policy Research Working Paper.
21. For a concise overview of the Takaful market in the region, see The World Takaful Report 2012, published by the World Takaful Conference in collaboration with Ernst & Young.
22. For more details see Zurich Insurance Group (formerly Zurich Financial Services), 2011, Insurance and technology to better serve emerging consumers.

IV. Challenges for insurance in MENA
continued

An important constraining factor on the supply side is the dominance of state-owned insurers in various – though not all – countries in the region. This tends to crowd out private sector firms.[23] Another problem is the lack of qualified insurance professionals. Insurance is a particularly complex business that requires sophisticated actuarial skills to determine whether prices and provisions adequately reflect risk. It is telling that in this regard, only two MENA countries – Egypt and Lebanon – are represented among the 85 full and associate members of the International Actuarial Association. Accounting and auditing are two other areas identified as lacking adequate technical and professional skills. Taken together, these efficiencies have hindered development of the insurance sector in the MENA region. While foreign insurers can provide valuable knowledge transfers to help to bridge the skills gap, there is an urgent need for developing the capacity for local training.[24]

Regulatory challenges

A vibrant insurance sector relies on a sophisticated regulatory framework and strong supervision.[25] By ensuring policyholders are protected, supervision helps to build trust, a necessary precondition for creating a properly-functioning insurance market. Policyholders generally are not able to judge how solvent their insurance provider is, and in particular cannot assess an insurer's solvency over the span of a long-term insurance contract. Supervision thus plays a key role in assessing and monitoring insurers' ability to meet obligations. Only when these conditions are met will people be willing to buy insurance protection (especially long-term contracts like life insurance). Then and only then can a sound insurance market develop. To protect policyholders, supervisors typically require insurers to hold capital commensurate with risks they take on. Supervisors also impose investment restrictions on the assets backing liabilities to policyholders, establish consumer protection standards, set rules for the competency and integrity of directors and managers (so-called 'fit and proper' requirements), mandate accounting standards and reporting, and – particularly important following the latest financial crisis – set up macro-prudential surveillance systems to provide early warnings if a potential new financial crisis is brewing.

While significant country-specific differences persist in the MENA region, there is scope for further improvements in insurance regulation. Regulatory standards are fairly vague and tend to be less detailed and less sophisticated than in developed countries.[26] While a tight net of overly prescriptive regulations can impede the efficient functioning of insurance markets, lack of a sound set of rules can be even more detrimental. Without proper regulation, insurers relying on inadequate risk management systems can enter the market with 'cheap' products, resulting in under-pricing and under-provisioning, pushing sound insurers out of the market.

Furthermore, insurance in the MENA region is mandatory for only a limited number of lines. Only motor third-party liability is compulsory in all countries in the region. But even this rule is not always effectively enforced.[27] Without appropriate public policies, information asymmetries between the insurer and the insured can create situations in which the private market fails to provide adequate insurance. In some cases, for example occupational injury, health, or motor third-party liability insurance, such policies may demand the establishment of mandatory insurance schemes.

23. The market share of state-controlled companies in Syria, Egypt and Algeria ranges between 47 and 72 percent. See Rodney Lester, 2011, The Insurance Sector in the Middle East and North Africa, World Bank Policy Research Working Paper.
24. See Rodney Lester, 2011, The Insurance Sector in the Middle East and North Africa, World Bank Policy Research Working Paper.
25. On the role and rules for regulation in the insurance industry, see Ernst Baltensperger, Peter Buomberger, Alessandro A. Iuppa, Arno Wicki, and Benno Keller, 2007, Regulation and Intervention in the Insurance Industry, Zurich, Zurich Insurance Group (formerly Zurich Financial Services).
26. Based on multiple sources collected by Zurich, IPZ & Cross-border Product Underwriting.
27. See Rodney Lester, 2011, The Insurance Sector in the Middle East and North Africa, World Bank Policy Research Working Paper, which also includes an overview of mandatory insurance lines in all countries of the region.

It is also essential that the regulatory framework does not impede efficient risk pooling, the central mechanism whereby insurers transfer risk.[28] First and foremost, efficient risk pooling means that insurers must be able to adopt pricing that adequately reflects risk. Subjecting rate setting to regulatory constraints or supervisory interventions that interfere with risk-based pricing can limit insurance capacity, and ultimately lead private suppliers to completely withdraw from the market. In addition, barriers to market entry designed to protect the industry in its infancy can actually impair proper functioning, to the detriment of the economy and society as a whole. Independent studies show that such impediments are unfortunately prevalent in the region.[29] Some MENA countries still prohibit overseas companies from establishing branches, and/or continue to restrict ownership by non-national carriers.[30] Other equally restrictive measures include the mandatory placement of certain risks with government insurers or locally-owned insurers, or mandatory placement of reinsurance cessions to local or regional insurers.[31]

Lastly, in the MENA region, tax treatment of insurance – including value-added tax (VAT), stamp duty and premium taxes – is often very unfavorable. In the case of life insurance, this becomes most disadvantageous when the savings component is also taxed.[32] A more favorable tax treatment of (life) insurance would help to boost demand for such products.

Box 2: Insurance market development in Morocco

Morocco has the most developed insurance market in the region. Lester (2010)[32] attributes its success to the following factors:

- A capable supervisory office that enjoys a unique working relationship with its counterparts and the industry;
- A regulatory regime that has tracked EU developments and supports a technical approach to insurance management;
- A vibrant private insurance sector with significant foreign holdings in local insurers;
- A stable and effective industry structure following a series of mergers;
- The existence of well-regulated and policed mandatory insurance classes – including motor third-party liability, workman's compensation (WCA), some professional liability coverage, and mortgage-related coverage;
- The historical role the sector has played in providing comprehensive health insurance;
- The rapid emergence and growth of life bancassurance with a significant savings component;
- A significant role for life insurers in the provision of supplementary pensions;
- A developing mortgage market;
- A still-developing but viable capital market, supplemented by some scope to diversify portfolios internationally (10 percent of funds off-shore);
- Removal of nearly all risk placement preferences, with the last remaining compulsory cession to the national reinsurer due to be removed shortly.

28. See, for example, Marian Bell and Benno Keller, 2009, Insurance and stability. The reform of insurance regulation, Zurich Insurance Group (formerly Zurich Financial Services).
29. See, for example, Rodney Lester, 2011, The Insurance Sector in the Middle East and North Africa, World Bank Policy Research Working Paper.
30. See Daniel Hofmann, 2012, The Demographic Challenge for Economic Policy Makers: Labor Market Developments in a Framework of Sustainable Economic Growth and Financial Sector Development, in Hans Groth and Alfonso Sousa-Poza (eds.), Population Dynamics in Muslim Countries, Berlin, Heidelberg.
31. Based on multiple sources, collected by Zurich, IPZ & Cross-border Product Underwriting (Standards). See also Rodney Lester, 2011, The Insurance Sector in the Middle East and North Africa, World Bank Policy Research Working Paper.
32. See Rodney Lester, 2011, The Insurance Sector in the Middle East and North Africa, World Bank Policy Research Working Paper.

V. Conclusion

Insurance can play a crucial role in addressing key challenges of the MENA region. By making financial markets more efficient and fostering foreign direct investments and trade, insurance spurs the necessary transformation and modernization of local economies, helps to create employment opportunities and promotes sustainable economic growth. Insurance also has the potential to prevent people from falling into poverty if they are hit by adverse events, and to support the growth of the middle class.

Lack of consumer trust and awareness is a major impediment that is keeping insurance from playing a more important role in MENA countries. To fully tap the potential of insurance, affordable and tailored products for emerging markets are needed that give consumers a positive experience and build trust. These include micro-insurance and products for the growing middle class. Furthermore, as corporate citizens, insurers should share their expertise and help individuals, companies and governments to reduce risks. To increase awareness about the potential benefits of insurance, more investment in financial education will be necessary.

A sound and stable public policy and regulatory framework are preconditions for developing an efficient insurance market. Unfortunately, regulatory restrictions that limit insurers' ability to effectively pool risks, hindering development of an efficient insurance market, are prevalent in many countries of the MENA region. There is a clear need to reduce regulatory barriers.

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